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FINANCES OF THE KOREAN PEOPLE'S DEMOCRATIC REPUBLIC

By D. Butakov, V. Bochkova,  
and I. Shevel'

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STATE BUDGETARY EXPENDITURES, 1954-59FINANCES OF THE KOREAN PEOPLE'S DEMOCRATIC REPUBLIC

[Following is the translation of a chapter (English version above) of the book "Finansy stran narodnoy demokratii" (Finances of the Countries of the People's Democracies) by D. Butakov, V. Bochkova and I. Shevel', Moscow, 21 November 1959, pages 284-312.] *Pick up on pp/14.*

After the liberation of Korea by the Soviet Army from oppression by the Japanese colonial regime, the Korean people proceeded to build their People's Democratic State. Such endeavor was possible in the northern part of the country only, as the Syngman Rhee anti-people clique became ensconced in the southern part of the country, which was subjected to American occupation.

An agrarian reform was conducted in North Korea. Industry, transportation, communications and banks, which formerly belonged to the Japanese and to the traitors, were nationalized. As a result of these measures new production relationships were created in the village and a People's Government sector was established in industry, which became a leading force in the development of the economy.

The principal task of the People's Government in the sphere of economics was the consolidation and expansion of the socialist structure within the national economy and an emphasized development of heavy industry as a basis for the country's independence and the strengthening of its defensive capabilities. Of importance in the resolution of this problem was the introduction of a planning system in 1947 in the national economy.

As a result of the reforms, the People's Democratic State was able to attain considerable economic success during the first years of its existence. Towards the end of 1949 the most important branches of the national economy of the Korean People's Democratic Republic exceeded the 1944 gross production level -- which was the highest achieved by the industry before the country was liberated.

The armed attack on the Korean People's Democratic Republic by the American imperialists and by the Syngman Rhee clique in 1950 interrupted the peaceful creative work of the Korean people. The three year war (1950-1953) brought great destruction to the national economy and caused incalculable damage to the population. According to incomplete data the damage caused to the KNDR (Koreyskaya Narodno-Demokraticeskaya Respublika -- Korean People's Democratic Republic) exceeded 420 billion won (in terms of the old currency). Over 1,700 plant and factory buildings were destroyed; 600,000 dwellings mounting to an area of 28,000,000 square meters; over 5,000 schools, more than one thousand hospitals and medical points as well as thou-

sands of various public buildings were also destroyed. Cities were reduced to rubble.

After completing the Three Year Plan for the Restoration and Development of the National Economy (1954-1956), the KNDR not only attained the prewar production level, but exceeded it in many branches of its industry.

The successful fulfillment of the Three Year Plan and the creation of a necessary material-technical basis insured the presence of conditions needed for long range economic planning and, in 1957, permitted the Korean people to start the First Five Year Plan for the Development of the National Economy of the Republic (1957-1961), which is directed at building a socialist foundation. The First Five Year Plan is directed at initiating an extensive development of heavy industry, an increase in the output of the light industries and that of agricultural production as well as the completion of cooperativization in agriculture in order to accelerate the building of socialism in the northern part of the country and to significantly raise the material and cultural levels of the people.

The democratic financial system, created during the first years of the People's Government, performed an important role in the establishment of the new social order and a system of planned direction of the economic development by the government.

The basic financial plan of the country is the state budget of the KNDR. By consolidating its revenue, from various sectors of the economy, by means of the budget, the government distributes and redistributes it according to a plan, basing itself on the problems of wide scale production, a steady rise in the material and cultural level of the workers and the strengthening of its defense capabilities. The state budget occupies a decisive position in the work of building socialism in KNDR.

Within the state budget of the KNDR is a central budget, an insurance budget and local budgets. In accordance with the administrative subdivision of the country, the budgetary system of KNDR includes nine provincial budgets and two city budgets of the provincial level, in addition to the central budget.

The Supreme People's Assembly reviews and adopts a state budget annually. A single legislative act establishes the total revenues and expenditures of the state budget and the size of the basic appropriations, as well as the subsidies granted from the central budget to the provincial and city budgets and deductions from the local budgets for the central budget.

People's committees in the provinces, cities, rural areas and districts as well as in villages have their individual budgets. One of the duties of the people's committees is the compilation of and compliance with the local budgets in addition to the collection of taxes.

Successful restoration and a rapid tempo of development of the national economy of KNDR, the brotherly aid extended by the socialist

countries to the Korean People in the elimination of the consequences of aggression by the American imperialists and by the Li Sung Man clique insured a rapid expansion of the state budget and a systematic excess of revenues over expenditures.

The State Budget of KNDR [See Note] (million won)

Year	Revenues	Expenditures	Excess of revenue over expenditures
1950	219.6	199.9	19.7
1951	276.8	237.8	39.0
1952	455.2	402.4	52.8
1953	527.3	496.0	31.3
1954	901.8	806.4	95.4
1955	1,081.6	1,006.2	75.4
1956	992.5	956.0	36.5
1957	1,251.0	1,022.0	229.0
1958 (preliminary fulfillment)	1,530.0	1,315.0	215.0
1959 (plan)	2,325.0	2,281.0	44.0

[Note] Compiled on basis of data contained in reports of Minister of Finance KNDR on state budgets. This and following budget data is converted to the new money of 1959 issue as a means of comparison. The exchange of money was conducted in February 1959 at a ratio of 100 to 1.)

#### Revenues of the State Budget

The supremacy of socialist property assures an undeviating and constant expansion of the material basis of the state budget. The rapid rate of restoration and development of the national economy, the introduction of new enterprises, an increase of the productivity of labor, a systematic decrease in the cost of production, a further development of the commodity turnover -- all of these factors aid in increasing the revenue. An especially large increase in revenue of the state budget, almost entirely on account of the socialist sector of the economy, occurred during the last two years (1958-1959) as a result of the completion of socialist reorganization of the economy and a sharp rise in the output of all the branches of the national economy. In 1958 the budgetary revenues increased by 22.3% by comparison with 1957, and in 1959, due to the further consolidation and a renewed upswing of the socialist economy, they once again increased by 52 percent.

Budgetary revenues through direct taxes on the population form a comparatively small portion of the overall revenue receipts and this amount is continuing to decrease.

Of importance as a source of budgetary revenues is and was the assistance extended to the Korean people by the sister socialist countries on a basis of inviolable principles of proletarian internationalism.

[See Note 7]

The Revenues of the State Budget  
(in million won)

Year	Revenues from state and cooperative enterprises and economic organizations	Direct taxes on the population	Aid from socialist countries	Total
1954				
amount . . .	474	121	307	902
percent . . .	52.6	13.4	34.0	100.0
1955				
amount . . .	748	99	235	1,082
percent . . .	69.1	9.2	21.7	100.0
1956				
amount . . .	736	93	164	993
percent . . .	74.1	9.4	16.5	100.0
1957				
amount . . .	1,028	69	154	1,251
percent . . .	82.2	5.5	12.3	100.0
1958				
amount . . .	1,431	35	64	1,530
percent . . .	93.5	2.3	4.2	100.0
1959 (plan)				
amount . . .	2,215	47	63	2,325
percent . . .	95.3	2.0	2.7	100.0

(Note 7) Based on data contained in the budget report of the Minister of Finance KNDR.)

The principal revenues are yielded by the socialist sector. Over the indicated 6 year period revenue from the socialist economy increased from 474,000,000 won in 1954 to 2,215,000,000 in 1959, i.e. by 4.7 times, and their proportion in the total budgetary revenue increased accordingly from 52.6 percent to 95.3 percent. The principal portion of the budgetary receipts from the socialist sector is comprised of payments made by state enterprises.

Over the same period of time revenue from direct taxes on the people diminished from 121,000,000 won to 47,000,000 won, i.e. by 2.6 times, and their proportion of the overall budgetary receipts from 13.4 percent to 2 percent. A certain increase in the absolute amount of taxes in 1959 occurred on account of the local and income taxes on the people as a result of a significant increase in the personal incomes of the workers and employees.

By way of comparison it may be indicated that two thirds of the total revenue of the South Korean budget consists of direct taxes on the population. During the 1955-1956 fiscal year taxes provided 76 percent of all budgetary revenue. During the four postwar years budgetary tax receipts increased by 5.3 times. The rate of taxation in South Korea is one of the highest in the world.

Receipts from the socialist sector of the economy of the KNDR are comprised of turnover taxes, profit taxes, and other non-tax receipts from the state enterprises and organizations, of the income tax from the cooperatives and the produce tax from the agricultural cooperatives.

The main source of receipts for the state budget from the socialist economy prior to 1957 were the turnover tax, budget differences and profit taxes from the state enterprises. (See table 3.)

Budgetary revenues in the categories enumerated above increased over a six year period from 353,000,000 won to 2,082,000 won, i.e. by 5.9 times and their proportion of the total revenue increased from 39.2 percent to 89.5 percent.

During the course of the Three Year Plan the major source of revenue consisted of profit taxes levied on state enterprises, which contributed  $\frac{1}{2}$  of the overall budgetary revenue during 1955-1956.

Taxes on planned profits by the enterprises and economic organizations are collected on the sum which remains after the expenses incurred in expanding the basic funds of the enterprises are made, accretion of the working funds and other planned expenses. The maximum amount of tax on profits of the various branches is differentiated in a similar manner in accordance with the amount of the allocations for the Director's Fund. In order to conduct timely and even mobilization of funds for the state budget and to prevent the accumulation of large sums of profit at the enterprises, profit taxes are planned in quarterly and monthly terms. The enterprises and economic organizations make the planned payments into the budget twice monthly. 75 percent of the taxes on the profit above the planned level, after deductions for the Director's Fund, are paid into the state budget.

on a quarterly basis, and the balance of 25% remains at the enterprises and the economic organs until the annual auditing.

(See Note)<sup>1</sup>

Revenue Structure of the State Sector  
(million won)

Year	'Total revenue from the state sector' <sup>2</sup> <u>(See Note)</u>	Including			'Profit taxes on receipts'
		'Turnover' tax <sup>3</sup>	'Budget diff.' tax	'Expenditure' <u>(See Note)</u>	
1954					
amount ....	353	80	116	157	
percent....	39.2	8.9	12.9	17.4	
1955					
amount ....	480	103	123	254	
percent....	41.4	9.5	11.4	23.5	
1956					
amount ....	502	115	153	234	
percent....	50.6	11.6	15.4	23.6	
1957					
amount ....	771	530	75	186	
percent....	61.7	40.8	6.0	14.9	
1958					
amount ....	1,087	917	—	170	
percent....	71.0	59.9	—	11.1	
1959					
amount ....	2,082	1,423	—	659	
percent....	89.5	61.2	—	28.3	

<sup>1</sup> (Note) Based on data contained in the budget report of the Minister of Finance KNDR

<sup>2</sup> (Note) Without an allowance for income from the sale of state grain.)

<sup>3</sup> (Note) Including receipts from the cooperative turnover tax.)

The profit tax is computed and paid by the socialist industrial enterprises themselves. These taxes are also paid by the state purchasing agencies. Deadlines for paying the profit taxes are determined on the basis of its size, as established for the various branches of industry.

A special form of turnover tax in the KNDR is a tax on non-commodity operations, paid by enterprises engaged in public services (power, gas supply, transportation and other services.)

Prior to 1957 budgetary revenues from the turnover tax were relatively small (9 to 12 percent), even though its absolute size and proportion of total budgetary revenue were increasing systematically. Small receipts from the turnover tax was explained by the low wholesale prices and low turnover tax rates.

The principal source of revenue was the budgetary differences, which in essence were a special form of turnover tax. They formed as a result of the differences in prices between the normal supply and commercial trade.

Completion of the period of restoration and the advent of the First Five Year Plan demanded further perfection of the interrelationship between the state budget and the socialist enterprises and economic organizations.

In April of 1957 the wholesale commodity prices were reviewed, and the system of turnover taxation was changed. At the same time the budgetary differences were unified. As a result of the increase in production and the changes in turnover tax rates, budgetary revenue from the turnover tax increased sharply: in 1956 they amounted to 115,000,000 won, i.e. an 8 fold increase. The revenue from this source is stimulated to be 1,423,000,000 won in 1959.

At the present time the turnover tax is the basic source of pure budgetary revenue in KNDR. This assures steady and regular budgetary revenues inasmuch as the turnover tax is paid as a firmly established portion of the price of a unit of production.

As a result of a number of productive conditions, variations in the cost of production in the different enterprises and different profit margins, as well as the bearing of problems associated with the consolidation of the principles of accountability at the state enterprises; another method of mobilizing funds for the budget has been preserved -- profit taxes. In 1959 the co-relation of the revenues from these two sources are expressed by the following proportion: 68.3% (turnover tax) and 31.7% (profit tax) and in 1958 84.4% and 15.6% respectively.

Among the non-tax budgetary revenues are those from state grain sales. In 1956 this source of revenue amounted to 235,000 won (23.7%) and in 1957 (plan) 90,000,000 won (9.2%) See Note. A decrease in revenues from this source is explained by the fact that in 1957 a portion of the reserves from the sale of the state grain began to be allocated for use by purchasing organizations, in connection with their trans-

fer to economic accountability. (Note Nodong Hsimun, 15/III, 1957. State budgetary receipts from state enterprises of KNDK in the form of turnover taxes, as well as those in the form of non-tax return are essentially identical as they represent pure state revenue. No relationships exist in these cases.

Budgetary revenues from cooperative enterprises and organizations are of a different character. As long as the cooperatives are founded on group ownership and the product belongs to the given cooperative, the deduction of a part of their incomes for payment to a government fund bears tax characteristics. The tax policies of the Labor Party and of the government toward the cooperative economy is aimed at combining the interests of the state with those of the cooperative members.

In order to subsidize part of the incomes of these cooperatives for the budget, turnover and income taxes are levied on the cooperative organizations. These taxes are paid by the consumer<sup>s</sup>, producers<sup>s</sup> Note and fishing cooperatives. Agricultural cooperatives pay the agricultural produce tax.

(Note) In 1958 part of the producers' cooperatives were transferred to government control and the entire consumer cooperative section was brought under the jurisdiction of either the state or the agricultural cooperatives. As a result of this, revenues from the cooperative sector decreased.)

The turnover tax is levied once only on the state enterprises and the cooperatives. The commodities that are manufactured or those that are purchased are taxed.

Income tax for the cooperatives is computed on the basis of the balance according to a proportional scale: for the consumer cooperatives and the consumer cooperative unions -- 15%, from the producers' cooperatives and the fishing cooperatives -- 10%.

Certain categories of cooperative enterprises and organizations receive preferential income tax rates. Such as the newly organized producers' cooperatives working on local raw materials and state industrial by-products are not required to pay taxes for two years, and newly organized fishing cooperatives are exempt from taxation for a period of one year from the date of establishment. Even greater preferential tax rates are granted to the cooperatives composed of war veterans and families of those who are in the military service: they are exempt from taxation for one or two years from the date of organization, and thereafter the tax rate is 25% below the established rate.

From 1 November 1956 the income and turnover taxation of producers' cooperatives that have a weak production basis and poor production conditions (ones that include war veterans, those having a large number of unqualified workers or families some members of which are serving in the armed forces as well as dependent workers and employees, not receiving supplies in accordance with normal rations) Note are taxed according to a preferential tax rate.

(Note Mingchu Ch'osong, 26/X, 1956)

A movement for the cooperativization of agriculture was develop-

ing on a wide scale among the broad peasant masses during the postwar period. By the end of 1953 there were slightly over 800 agricultural cooperatives in the country, which included 1.2% of all the peasant families; by August of 1958 cooperativization was completed. Cooperativization included all the peasant households and the entire land area of the country. In this manner the difficult and complex task of the revolutionary reorganization of agriculture was resolved within a period of four to five years. As a result of the increase in the size of the cooperatives that was effected at the present time there are 3,843 large cooperative farms, which occupy entire administrative areas.

The state conducts a policy of aiding the agricultural cooperatives and extends all possible material and financial aid to them. One form of such aid was the preferential agricultural tax in kind rated during the process of cooperativization of agriculture. In accordance with a law adopted in December 1955 the tax rate for agricultural cooperatives was lowered by 5% by comparison with the rates for individual farmers. This was instrumental in consolidating the collective farms and promoted the development of the cooperative movement. By 1956-1957 the principal portion of agricultural taxes were paid by the cooperatives, and not by the individual farmers, as was the case during the early postwar years.

Considering the fact that in 1958 the cooperativization of agriculture was completed, the Fifth Session of the Supreme People's Assembly of the KMDR adopted a new law in February of 1959 regarding the agricultural tax in kind. In order to achieve further accumulation of capital by the agricultural cooperatives, the acceleration of technical and cultural reforms in the village and a higher material and cultural levels of the peasants, the tax in kind was considerably lowered.

According to the new law the agricultural taxpayers are those who directly cultivate the land (agricultural cooperatives, various enterprises, organizations, the population.) This aspect of the new law reflects the new social economic structure of the Korean village, which originated as a result of the completion of agricultural cooperativization. Even though the principal portion of the agricultural taxes consisted of the payments by agricultural cooperatives, the basis for its computation prior to 1959 was the income of the individual peasant household.

The average tax rate for grain crops was lowered from 22.4% to 10%, and the rates for all other items of agricultural production including grain were lowered from 20.1% to 8.4%. Cutting farming was completely exempt from taxation. Lower tax rates apply to incomes from land that has suffered from natural disasters and that obtained from virgin lands. See Note

(Note: Mingchu Ch'osong, 22/II, 1959.)

The percentile rates for the agricultural tax are determined on the basis of the fertility of watered and dry fields differentiated

according to the various crops. The size of the agricultural tax in kind levied in accordance with the new law will remain unchanged for several years.

The lower agricultural tax rates decreased the state budgetary revenues from it: in 1959 they comprised a total of only 0.8% of the overall budgetary revenue. (See Note)

(Note) "New Korea", No 102, 1959, page 5.)

Direct taxes on the population include the agricultural tax in kind (that portion of it paid by members of the agricultural cooperatives, workers and employees,) income tax and the local tax.

Direct taxes on the population in the KNDR, as in other people's democratic countries, are used to apply part of the workers incomes for the building of socialism. The incomes and capital accumulation in various social layers are controlled by means of such taxation. By establishing a progressive system of taxation the state is able to control incomes of the private entrepreneurs. During the last several years the People's Democratic Government was conducting a policy of stimulating positive aspects of the activities of the individual enterprises, in addition to limited capitalist undertakings, in the interests of building socialism. During recent years taxes applying to petty and average private traders and merchants, as well as to handicraft workers and members of the free professions were lowered.

Along with the creation of a basis for socialist industrialization and the cooperativization of agriculture and of the handicraft industry, a policy of peaceful socialist reorganization of the private capitalist industry and trade was being conducted. The Labor Party of Korea, basing itself on the interests of the revolution and considering the historically formed peculiarities of the private sector, underlined at its Third Session (April, 1956) that the basic method for socialist reorganization of the private merchants and traders was thorough cooperativization. Proceeding along this line the Korean people successfully completed the socialist reformation of private industry and trade in 1958.

In general, revenues from direct taxes on the population during the postwar period comprise a small portion of the overall revenues for the state budget: their proportion and absolute amounts are systematically decreased as a result of the policies of the KNDR, which are directed at improving the welfare of the people.

Prior to the cooperativization of agriculture, the basic tax on the population was the agricultural tax in kind, which was paid by the individual peasants and by members of the agricultural cooperatives. Starting with January 1956 the average crop yield for the past several years instead of the crop yield for the current year from a given area was used as a basis for taxation. The rural people's committees determined the average crop yields on the basis of a multi-lateral mass discussion at general peasant meetings. The established average crop yield is used as a basis for taxes for the following several years. This assured a stability in the amount of the tax,

applying to each peasant household and created an incentive among the peasants for improving land cultivation and raising crop yields.

The overall tax depended on the crop yield, obtained from the cultivated area (i.e. on the size of the land plot and the yield per unit of area.) Tax rates are progressive, they are differentiated according to the various agricultural crops depending on the crop yield obtained at the different localities.

Wet rice was taxed at 20%, 23%, 25% and 27%, depending on the crop yield, industrial and vegetable crops were taxed at 10% to 23%, fruit orchards -- 23% to 25%, zhensheng crops (irregardless of the crop yield) were taxed at 23%. (See Note)

(Note) "Register of the Ministers' Cabinet of the KNDR, 1956.)

Private land plots belonging to members of the cooperatives and those owned by individual peasants and not exceeding 30 pkhen (one pkhen equals 3.3 square meters) in area were exempt from taxation and 50 pkhen plots located in areas of low fertility were exempt from taxation. Virgin lands tilled by the peasants themselves were exempt for periods of from one to three years, as well as cultivated fallow land, and fruit orchards for a period of two years after the plants bear fruit. (See Note)

(Note) Nodong Heimun , 23/XII, 1955

Sheep herding and hog raising were not taxed at all, this was an important factor contributing to the development of animal husbandry. In order to reserve grazing and pasture lands in areas where animal husbandry is well developed it is permitted to pay part of the taxes in produce (meat and fat.) The rate is recomputed at six kilograms of corn for one kilogram of meat or fat.

Deadlines for paying the tax are as follows: 31 August for the early crops, up to 15 December for the late crops and tax payments on meat.

In order to achieve a further development and consolidation of the economic position of the poor peasantry and of the agricultural cooperatives in the mountain area the government adopted a resolution in February 1956 to lower the agricultural tax on households formerly using the cutting method of land cultivation for a three year period (1956-1958,) by 50%, and a decrease of 25% for households utilizing the semi-cutting method of land cultivation. (See Note)

(Note) "Register of the Ministers' Cabinet of the KNDR," No 3, 1956)

Crop yields obtained from lands of low fertility by cooperatives and individual peasants were exempt from taxes in 1956, as well as the crop yields from lands belonging to poor peasants who found themselves in a difficult position due to a lack of able bodied family members or for other reasons, as well as that reaped by families living on the de-militarized border zone. At the same time a number of poor cooperatives and several categories of peasants were fully or partially re-

lieved from payments due in settlement of government grain loans and past due payments of all types amounted to 26 thousand tons of grain.  
(See Note)

(Note) "Register of the Ministers' Cabinet of the KNDR," No 11, 1956.)

In accordance with the law of 1959 agricultural cooperative members, workers and employees enjoy lower rates in paying the tax in kind on the produce from their private plots. The volume of taxes will remain static for several years.

Income tax on the population, which at the present time is the basic form of tax, is paid by the workers, employees, literary and art workers, members of the producers' and fishing cooperatives, handicraft workers, private traders and merchants and other individuals having an independent means of income.

In order to allow for the different social position of the taxpayer in addition to their various levels of income within a single tax system, differentiated tax rates are applied.

Taxes are withheld from the workers' and employees' wages once a month at their place of employment by the government, social and cooperative enterprises and organizations as well as by the private entrepreneurs, which then credit the deducted amounts to the state budget. Tax rates are established on a sliding scale: with an income of from 7 to 15 won, the tax amounts to 2.6% of the total wage, with an income of over 50 won, the tax 2.99 won plus 10% of the amount over 50 won. The maximum non-taxable income is 7 won per month. If there are four or more dependents the tax is decreased by 40%. Pensions and assistance payments from the government are tax exempt as well as insurance settlements, interest on bank deposits, financial rewards for decorations and certain other sources of income.

Members of the producers' and fishing cooperatives are taxed on the same basis as the workers and employees, as well as those producers' and fishing cooperative members in addition to workers, employees, cooperative members and their dependents who work at home and release their produce to the state or cooperative organizations and enterprises (providing they do not use their own equipment or material) pay 5% higher taxes.

Workers engaged in the fields of literature, science and art pay income taxes on the basis of the same rates as the workers and employees, however a minimum tax exempt income does not apply in their case, and the taxable basis is not their monthly, but their annual income.

With an annual income of 180 won the tax is 2.6%, with an annual income of over 600 won the tax is 35.88% plus 10% of any sum in excess of 600 won. The tax is withheld each time the fee is paid.

Handicraft workers and members of the free professions are taxed according to special higher rates. This category also includes members of producers' and fishing cooperatives and the members of their families who work at home, using their own materials and equipment and freely selling finished products. This category of taxpayers is taxed at 6% with an annual increase of 3,600 to 7,200 won -- 1,032 won plus 1% of the amount over 3,600 won. With an income exceeding 7,200 won per year, the above category of taxpayers are taxed on the basis of rates applying to private manufacturers or traders.

The private traders paid taxes based on even higher rates. Private manufacturers were taxed according to the same rates but with a 20% deduction. This deduction was a means of stimulating the flow of capital from trade into production in order to increase the manufacture of consumer goods on the basis of a wide-scale utilization of locally produced raw material and industrial by-products.

The semi-annual income of the private traders and industrialists served as the tax basis, in contrast to other categories of tax payers.

The tax rate with a semi-annual income of up to 120 won is 9%, the maximum rate with an income of 12,000 won is 7,401.6 won plus 7% of the income in excess of 12,000 won. (See Note 7)

(Note 7) Mingchou Cho'song, 23/III, 1955.)

The local tax which goes entirely into the local budgets is based on the same principles as the income tax. Its rates are differentiated according to the same categories of taxpayers, but is computed on a sequential scale. In addition to that the local tax affects the individual peasants and agricultural cooperative members.

Workers and employees are taxed at a rate of 0.8% (with incomes of 7 to 15 won per month) and 2% (with an income exceeding 50 won per month.) The tax for members of producers' and fishing cooperatives, as well as workers, employees, cooperative members and their families working at home and not using their own material or equipment, are taxed according to the same rates but the tax is 5% higher.

Scientific, art and literary workers pay the local tax at a rate of 0.8% on an annual fee of 180 won, and 2% on an annual fee of over 600 won.

Individual peasants having incomes annually of up to 500 won are taxed at 0.1%, and those having an income in excess of 20,000 won per year pay tax at a rate of 6%. Agricultural cooperative members pay taxes according to similar rates, the amount of the tax however, is diminished by 10%.

Private traders were taxed according to a rate of 1.7% (with a semi-annual income of up to 120 won) and 20% (with a semi-annual income of up to 40,000 won,) and the private manufacturers paid taxes with a 5% deduction from the amount computed for the traders. (See Note 7)

(Note 7) Mingchou Cho'song, 11/III, 1956.)

Starting with 1 October 1956 further decreases in the income and local taxes on the private traders, manufacturers, handicraft workers and members of the free profession were introduced. Taxpayers

having an average monthly income of not over 100 won, the taxes were decreased by 50%. (See Note<sup>7</sup>)

(Note<sup>7</sup>: Mingchou Cho'song, 9/X, 1956.)

One of the components of the state budget of the KNDR is the social insurance budget, which was separated from the central budget in 1955 and since that time is an independent link of the budget system. Revenue from the social insurance budget is composed of the monthly deductions made by the state and private enterprises in amounts of from 10% to 12% of the wage fund. Cooperative enterprises and organizations pay from 5% to 8% of the non-member workers' and employees' wages into the social insurance budget. In addition to that workers and employees of the state, cooperative and private enterprises contribute 1% of their wage towards social insurance. Members of the cooperative enterprises are not included in the state social insurance system.

In absolute amounts, budget income from social insurance levies amounted to the following (according to plan) (See Note<sup>8</sup>): 13.3 million won in 1955, 14.6 million won in 1956, 17 million won in 1957, 26.7 million won in 1958; their proportion in the overall revenues of the state budget increased from 1.3% in 1955 to 2.4% in 1958.

(Note<sup>8</sup>: Nodong Hsinmin, 11/III, 1955, 11/III, 1956, 15/III, 1957, 18/II, 1958. In actual fulfillment -- revenues from the social insurance levies amounted to 13.8 million won in 1955 and 26.3 million won in 1957.)

Of great significance in the ascent of the economy of the KNDR is the brotherly, unselfish aid extended to the Korean people by other socialist countries. This aid is taken into consideration in the revenues of the state budget of the KNDR and for a number of years it represented a most important source of revenue. Due to the success attained in the restoration and development of the national economy of the republic and the consolidation of the internal sources of revenue the Korean people are utilizing foreign aid at a constantly diminishing rate. The extent of the foreign aid and its proportion of the total revenues of the budget decreased considerably by 1959. During the course of the Three Year Plan grants from the friendly countries amounted to 23.7% of all the budget revenues, and by 1957 its proportion decreased to 12.3%, and in 1959 budget it is stipulated (together with credits) at 2.7%. (See Note<sup>9</sup>)

(Note<sup>9</sup>: Nodong Hsinmin, 20/II, 1959.)

Extensive aid to the KNDR has always been given by the Soviet Union. Immediately after the end of the war in Korea, the Soviet government offered the KNDR aid in the amount of one billion rubles. In September of 1953 both countries agreed that these funds be used for the restoration and reconstruction of the enterprises that were destroyed and for the building of new, large enterprises, which will serve as a basis for strengthening the national economy. In addition, the Soviet government diminished by one half the credit payments due on the credit extended to the KNDR in accordance with the 1949 agreement

and postponed its final settlement for an additional several years.

The USSR delivered agricultural machinery, fishing vessels, building materials, transformers, various building and highway machines, means of transportation, equipment, materials, technical documentation, consumer goods etc., to the KNDR as aid. Soviet specialists were commandeered to Korea to aid in its reconstruction.

The Chinese People's Republic concluded an agreement with the KNDR in November 1953 for postwar economic cooperation. The government of the CPR classified all of the assistance given to the KNDR during the war as an outright grant, in addition to an appropriation of 800,000,000 yuan for that country. As part of such aid the CPR provided a large amount of various materials and continues to extend its cooperation in the building of a number of important industrial projects. A large number of Chinese people's volunteers directly participated in this construction work.

The government of the German Democratic Republic resolved to provide Korea with aid in the amount of 545.4 million rubles during 1955-1956. The GDR assumed the task of restoring the city of Hamhung as well as the supplying of material to that point and the provision of technical direction. In addition to that the GDR provides assistance in the restoration and construction of a number of large industrial projects. German specialists are directing a number of important construction projects. [See Note]

(/Note/ *Kenchzhe Konsol'*, No 9, 1956.)

Much assistance is provided by the Czechoslovakian Republic in the construction of machine building plants, an automobile repair and maintenance plant and a number of other enterprises. Czechoslovakia supplied Korea with building and other materials, and also provided extensive scientific-technical aid.

The Polish people provided Korea with building materials, bulldozers, hoisting cranes, belt conveyers, steam locomotives and other equipment in addition to assisting in the construction of industrial projects.

The Hungarian People's Republic obligated itself to construct a number of industrial projects. It provides aid in the form of electrical equipment, means of communication and sends its specialists to Korea.

The Bulgarian people participated in the construction of a tile factory, and a woodworking plant. Bulgaria supplied Korea with a large amount of cotton fabric, window panes and also sent specialists.

Rumania is providing equipment for a number of plants, passenger railway cars, fishing vessels, building materials, the Albanian people sent cotton fabric, asphalt and other material to Korea. Clothing and food were shipped as well as a large number of cattle from the Mongolian Peoples Republic to Korea. [See Note]

(/Note/ *Kenchzhe Konsol'*, No 9, 1956.)

As a result of the visits made by a KNDR government delegation in the summer of 1956 to a number of countries of the socialist camp,

an agreement regarding further aid for the Korean people was negotiated. The brotherly assistance by countries of the socialist camp and friendly cooperation with them along with the enthusiasm of the Korean people guarantee success in the building of socialism in the KNDR.

In contrast to the aid being given to the KNDR by the socialized countries, American "aid" to South Korea bears a predatory nature; it means colonial enslavement and the transformation of South Korea into a market for surplus commodities, it increases disproportion in the economy of the southern part of the country and leads to the sharpening of economic contradictions.

Under the guise of economic assistance, the USA has obtained the right to control mining, the output and distribution of the industrial and agricultural production, the right to issue currency as well as control over the activities of financial-credit institutions, foreign loans, import and export, in addition to the right to import into North Korea from the USA surplus food and its distribution, i.e. it has actually acquired the right to control all branches of the South Korean economy.

By the autumn of 1957, 85% of all property in South Korea was under the control of the Americans. (See Note 1) and the value of property, requisitioned by the so called UN forces from the population, amounted to 68,000,000 dollars (according to data provided by "The Commission for the Restoration of Korea") (See Note 2 i.e. eight times greater than the American investments towards "restoration".

(Note 1 "New Korea," No 8, 1957.)

(Note 2 "New Korea," No 1, 1957.)

#### Expenditures of the State Budget

The expenditures section of the state budget of the KNDR characterizes it as an instrument of peaceful economic construction and the raising of material and cultural levels of the people.

The budget funds are being used evenly and in a planned manner for the resolution of tasks, confronting the People's Democratic country.

In both absolute amounts and in its overall share, expenditures in the national economy occupy the first place among national budget expenditures. Over the past six years they amounted to 71 to 72% of all the expenditures. They amounted to an especially high percentage in 1955 and in 1956 (74 to 75%), the last two years of the Three Year Plan for the Restoration and Development of the Country's National Economy.

During the Three Year Plan budgetary capital investments, including expenditures for the construction of social-cultural projects amounted to 973,000,000 won (at current prices), exceeding the sums stipulated in the plan (900,000,000 won). In addition, parts of the capital investments were underwritten by funds from the various enterprises and organizations.

During the Three Year Plan the budget appropriated 483,000,000

State Budgetary Expenditures of the KMDR. ~~Note~~ <sup>1957 Note</sup>  
(million won)

Year	National economy	Social-cultural measures	Government	Defense	Other	Total
1954						
amount....	561	79	68	64	34	806
percent....	69.6	9.8	8.4	8.0	4.2	100.0
1955						
amount....	753	95	65	62	31	1,066
percent....	74.9	9.4	6.4	6.2	3.1	100.0
1956						
amount....	711	121	58	57	9	956
percent....	74.3	12.7	6.1	5.9	1.0	100.0
1957						
amount....	721	177	No data	65	No data	1,022
percent....	70.5	17.3		6.4		100.0
1958						
amount....	954	229	78	63	1.0	1,315
percent....	71.8	17.4	5.9	4.8	0.1	100.0
1959 (plan)						
amount....	1,632	408	77	63	101	2,281
percent....	71.5	17.9	3.4	2.8	4.4	100.0

~~Note~~ Compiled on the basis of data contained in the budget reports of the Minister of Finance of the KMDR.)

won (49.6%) for industry, 260,000 won (26.7%) for the restoration and construction of public buildings and dwellings, as well as for educational, public health and cultural buildings, and 86,000,000 won (9%) for the development of agriculture.

(Note) Nodes minmun, 15/11/1957.) <sup>and</sup> Pick up on pg 22

Intensive capital investments along with the labor enthusiasm of the workers were conducive to an accelerated rate of reconstruction as a result of which the level of production in most indices exceeded the level attained during the prewar year of 1949. The industrial branch of the economy of KMDR mastered the production of machinery and

Capital Investments in the National Economy. (See Note)  
(million won)

Year	Total capital investments (plan)	Including		Financed by enterprises and financial organizations
		Budgetary		
1955				
amount.....	398	338		60
percent.....	100.0	84.8		15.2
1956				
amount.....	401	277		124
percent.....	100.0	69.1		30.9
1957				
amount .....	273	237		36
percent.....	100.0	86.9		13.1
1958				
amount .....	388	316		72
percent.....	100.0	81.4		18.6
1959				
amount .....	1,002	772		230
percent.....	100.0	77.0		23.0

(Note) Compiled on the basis of data contained in the state budgetary laws of the KNDR.)

consumer goods which were not previously manufactured in the country. Direct current generators were assembled for the first time, as well as high voltage transformers, latest model lathes, gas generators, high quality silks, drugs, canned meat and vegetables and other items.

Along with the financing of metallurgical, power, coal, chemical and other branches of heavy industry, where most of the appropriations were applied, considerable sums were also appropriated for the development of the light industry. This permitted a considerable increase in the manufacture of consumer goods.

During the course of the Three Year Plan the gross average annual increase in industrial output amounted to 42%, 59% of which was the manufacture of the means of production, and 28% the manufacture of consumer goods. The manufacture of the means of production

increased by four times in 1956 as compared with 1953, and the production of consumer goods increased by 2.1 times. See Note

(Note: "New Korea," No 3, Supplement.)

The Labor Party of Korea and the government of the KNDK conducted a number of important measures in agriculture, which suffered extensive damage during the war. The restoration and expansion of the land under cultivation and the irrigation system was financed by the government. Large irrigation projects were constructed at government expense in South Pyongan province as well as irrigation systems in the Synho and Kannam areas, which permitted an expansion of the irrigated area by 87,000 tenbaos. In addition to that, a large number of small and average-sized irrigation systems were constructed by the peasants, as a result of which an additional 17,000 tenbaos of land were tilled.

The area under crop during the course of the Three Year Plan increased by 115,000 tenbaos, the number of machine rental stations increased to 45, i.e. by 3.2 times and the number of tractors available for rent increased to 2,382 (in terms of 15 horsepower units,) i.e. by 4.1 times.

In addition to making capital investments the state extends considerable assistance to the peasants by granting financial and material loans. In 1956 agricultural cooperatives and individual peasants received 3.3 billion won worth of credit and a large amount of mineral fertilizer from the state.

Capital investments in transportation and communications amounted to 106,000,000 won during the Three Year Plan. Due to these measures railway tracks on 228 large and small railway bridges were restored, as well as 30 tunnels, supporting walls and so on; an electric railway from Yandok to Chongsong -- 51 kilometers in length as well as a number of railway stations, and car repair depots were restored and put into operation.

During the course of the Five Year Plan capital investments were made, as was the case during the Three Year Plan, in the branches of heavy industry. Over the past several years, however, the rate of capital investments in the light industries and agriculture also increased considerably.

The successful restoration and development of the national economy during the postwar years, particularly in 1957, first year of the Five Year Plan, laid the foundation for a more rapid building of socialism in the KNDK. The Central Committee of the Korean Labor Party called on the country's workers to struggle for increased production and to observe thrift in the national economy. 1958 was a year of unusual development in the productive forces of the country, which were liberated from the detrimental effect of the old production relationships, this was a year of remarkable success to the Korean people. The workers confronted themselves with a task of not only fulfilling the First Five Year Plan by 1949, two years

ahead of schedule, but to considerably exceed the levels of production planned for 1961 in all branches of the national economy.

The overall volume of capital investments by the state for 1958 amounted to 501,000,000 won, exceeding by 3% the capital investments made in 1957. Industrial production increased by 4% during 1958. By the second half of the year, due to resourcefulness and the utilisation of local material some 1,060 average sized and small enterprises were constructed without additional capital investment from the government. Agricultural cooperatives financed the construction of a large number of industrial and other concerns.

Capital investments in industry increased by 19%, 20% of which was invested in heavy industry, and 11% in the light industry. Some 71% or 252,000,000 won of the entire amount spent for capital investments was spent on industry.

As a result of the extensive capital investments made during the postwar period (1954-1958) the annual rate of growth of the manufacture of the means of production amounted to an average rate of 52%, and that of consumer goods was 34%. The production of tractors, excavators, trucks, bulldozers, electric mine tractors, universal milling machines, automatic weaving looms, electric washing machines and many other articles never before produced in Korea was mastered in 1958. (See Note<sup>7</sup>)

(Note<sup>7</sup> "New Korea", No 100, 1959, Supplement, pp 2,7.)

In 1959 the budgetary appropriations for capital investments amounted to 772,000,000 won. Government enterprises and economic organizations will invest 230,000,000 won out of their own funds. 74.3% of the capital is invested in industrial building and 25.7% are spent on the construction of housing and the building of social-cultural institutions. Some 77.7% of the 487,000,000 won allocated for industrial building are designated for use in the development of metallurgical, machine building, electric power, coal, chemical and other branches of heavy industry. (See Note<sup>7</sup>)

(Note<sup>7</sup> Mnodor Hsinmun, 20/II, 1959.)

Capital investments by the government in agriculture are increasing annually. Taking into consideration its weakened material and technical basis, which suffered great losses during the war, the government spent 120,000,000 won in capital investments on that industry during the post war period. These sums were used for building irrigation systems, river dams, and an expansion of the network of machine rental stations. (See Note<sup>7</sup>)

(Note<sup>7</sup> "New Korea", No 100, pg 28.)

An increase in the absolute volume of capital investments by the state in agriculture is accompanied by an increase in the share of all state capital investments in general, which is substantiated by the following data:

	1957	1958	1959 (plan)
Amount (million won).....	20	45	103
Share (percent).....	5.5	8.9	10.5

Therefore the volume of capital investment by the state in agriculture increased by over five times during a three year period, and its share of the total volume of investments increased almost two fold.

Due to the concern of the Labor Party and of the State the area under agricultural crops was expanded by 24,000 tenbae and the machine rental stations mechanized plowing, sowing, cultivation and other types of field work over an area of 850,000 tenbae. During 1958 the construction of over 10,000 irrigation systems was in progress. As a result the extent of irrigated rice fields will reach 91% of the entire area under that crop.

In addition to budgetary investments of capital, the government extended considerable aid to agriculture in the form of credits. During 1953-1958 243,000,000 won worth of credit was granted for agriculture, and for 1959, the government, through the Agricultural Bank, is extending credit amounting to 250,000,000 won for production and cultural work.

There is a widespread development in the construction of irrigation projects at the expense of the agricultural cooperatives themselves. During 1959, for instance, the agricultural cooperatives will invest 439,000,000 won in the cultural and productive development in the village. Wide scale development has occurred in the construction of average sized and small electric power stations, financed by the cooperatives, in order to resolve the problem of supplying electric power to the village within one to two years. See Note 7

(Note 7 Nodon Hsimun, 20/III, 1959; "New Korea", No 101, 1959, pg 8.)

The People's Government devotes considerable attention to the restoration of cities and villages as well as housing which were destroyed. The living space being added each year is increasing. During the course of the Three Year Plan 13,400,000 square meters of housing was constructed, 5,100,000 square meters of which were financed by the government. See Note 7. Workers and employees received 1,540 thousand square meters of living space from the government during 1957 (45% more than in 1956), and in 1958 -- 2,240 thousand square meters of housing were made available, an increase of 45.5%. In addition to that, 30,000 dwellings were constructed at the cooperatives and financed by the peasants. See Note 7.

(Note 7 Nodon Hsimun, 15/III, 1957.)

(Note 7 "New Korea", No 3, 1958, Supplement, pg 38.)

In 1958 the government appropriated 177,000,000 won for the construction of dwellings and 66,000,000 won for the construction of social-cultural institutions; 82,000,000 won were allocated by the budget for construction work to be done by the enterprises and organizations themselves, utilizing their own manpower and material.

(Note Nodon Hsimmun, 20/II, 1959.)

In addition to being used as capital investment budgetary funds are also used to supplement the turnover funds of the economically accountable enterprises and organizations. In 1955, for example, 34,000,000 won were spent for this purpose, and in 1959 -- 218,000,000 won (1.8 times greater than in 1955). Enterprise funds are spent for these purposes to an increasing degree, in addition to bank credit, which comprised (according to plan): 44,000,000 won in 1955, 58,000,000 in 1956, 98,000,000 in 1957. (See Note)

(Note Compiled on the basis of data contained in the budget reports of the Minister of Finance of the KNDR.)

Other expenditures, associated with further national economic development are also financed through the state budget, such expenditures as the cost of operation of the state enterprises and organizations (626,000,000 won in 1959), expenses involved in lowering prices are compensated, damage caused by the war etc.

#### Expenditures for Social-Cultural Measures.

These expenditures occupy second place in the share of budget or any proportion of expenditures. Their portion of the budgetary expenditures increased from 9.8% in 1954 to 17.9% in 1959, i.e. an almost double increase. Absolute amounts of the budgetary expenditures for social-cultural measures are increasing systematically from 79,000,000 won in 1954 to 405,000,000 won in 1959, i.e. an increase amounting to 5.2 times. At the same time it is normal with the sharp increase in the social-cultural expenditures there was an especially significant increase in their proportion ~~in all~~ budgetary expenditures. This is a direct result of the success attained by the Republic in restoring the economy and the high tempo of development of the national economy.

During the last several years part of the expenditures for social-cultural measures ~~was~~ being made by the enterprises and organizations themselves. In 1959, in addition to 408,000,000 won appropriated by the state budget, 21,000,000 won ~~were~~ being spent by the enterprises and organizations. Considerable success was attained in public education: 5,455 schools were built and restored, by the end of the Three Year Plan 2,080 thousand students were attending various educational institutions, 170,000 more than during 1949.

During 1959 state expenditures on social-cultural measures increased 3.4 times by comparison with 1956. Appropriations for cultural and educational measures in 1959 were increased by 70% as compared with 1958. Starting with November 1958 general compulsory incomplete secondary education was introduced for the first time in

The Structure of Budgetary Appropriations for  
Social-Cultural Measures. *Budžet*  
(million won)

Expenditure	1957		1958		1959	
	Amount	%	Amount	%	Amount	%
Social-cultural.....	158	100.0	212	100.0	408	100.0
Including:						
Education and preparation of personnel...	75	47.0	114	53.8	206	50.2
Social-cultural work...	6	3.5	4	2.0	30	7.3
Public health...	34	21.7	49	23.0	98	24.0
Social insurance.....	15	9.7	23	10.8	39	9.6
Social security.....	4	2.7	8	3.6	6	1.5
Science.....	8	5.2	12	5.6	10	2.5
Physical culture.....	2	1.2	3	1.2	(no data)	

(Note) Compiled on the basis of data from budget reports by the Minister of Finance, KADR, Nodon Heimun, 18/II, 1958, 20/II 1959, (Plan data.)

The first and preparations for introducing general compulsory technical training are now progressing. At the beginning of the 1958-1959 school year the overall number of students at institutions of education amounted to 2,380,000 persons, including 79,000 persons in the secondary schools, and in higher educational institutions there were 36,000 students. Some 15,000 students are attending 143 new technical schools. (Ministry of Education No. 100, 1959 Supplement, page 10.)

Noticeable development was made in scientific-research work. In 1956 the number of scientific workers increased five times in comparison with 1953. Expenses for the development of science are increasing systematically: in 1959 along with the 10,000,000 won appropriated by the state budget, 5,000,000 was allocated by the scientific organizations under the jurisdiction of scientific institutions.

The public health network developed significantly. In 1958 the number of beds increased by almost 2,000 and in 1958 by over 3,000. Some 230,000 workers and employees were resting in the sanatoriums and rest homes, during the Three Year Plan the number of hospital beds increased by 11,500,000 more than in 1949. Medical-epidemiological work advanced as well.

Considerable success was achieved during the prewar period in the development of the national culture and art, which serve the people. By the end of the Third Year Plan 255 artistic and documentary films were released by the motion picture studios: during 1958 660 theatres and motion pictures studios were in operation.

As a result of rational use of budgetary funds for the restoration and further development of the national economy, and for a steady increase in the welfare of the population, the KNDR attained significant success in improving the material position of the workers. The employees' and workers' wages are growing from year to year, retail prices are dropping, the peasants' incomes are growing as well.

During the postwar period the government lowered the prices on widely used commodities on several occasions. In 1956 prices for goods involved in state and cooperative trading were 45% below those of 1953, and in 1958 the retail prices dropped by 2% below the 1957 price levels.

General standardization of the wage system for workers and employees was accomplished in 1956, the wage rate system for workers as well as the pay scale for engineering technical workers and employees was altered. As a result of the wage reforms the average income of the indicated group of workers as well as that of the military personnel was increased by an average of 35%. The under-paid group of workers benefited from these reforms the most.

During 1957-1958 there was a further increase in income for the workers, engineering technical personnel and employees.

Starting with January 1959 the incomes of workers and employees, in addition to the students' stipends were again raised by an average of 40%. (*Note*7 "New Korea", No 100, 1959, Supplement, pp 9-10).

The material welfare of the peasantry is likewise rising. During the postwar period the government undertook serious measures for lightening the tax burden on the peasantry, which, along with other measures brought about a material growth in their real incomes.

In 1955 overdue taxes in kind, amounting to several tens of thousands tons of grain were cancelled by the government, as well as the peasants' indebtedness to the banks. The fixed prices of a number of agricultural crops were raised.

Free chemical supplies were provided on more than one occasion to the peasants by the workers' class as aid, in addition to labor aid amounting to several million workdays.

As a result of the successful development of agriculture during 1958 the peasant incomes increased as follows: (compared with 1955) 2.6 times in potato crops; 1.5 times in grain; and 3.6 in financial income. The peasants' standard of living, on the whole, is now better than that of the middle peasant. (See Nodong Hsinmin, 20/II, 1959)

One of the indices substantiating the growth in the well-being of the workers of the KNDR is the rising retail turnover of goods in state and cooperative trading, which, in 1956, was twice as high as in 1949 (at 1949 prices), and was 2.1 times higher than in 1953. In 1957 the retail commodity turnover in the state and cooperative trade increased by 57% compared with the 1956 level, and in 1958 the increase amounted to 43% by comparison with 1957.

### Expenditures for Defense and Government

With an increase in expenditures for the development of the national economy and the social-cultural measures, the government of the KNDR is systematically curtailing expenses for maintaining the government and for military needs. During the Three Year Plan expenses for maintaining the governmental apparatus decreased by 10,000,000 won, and their share of all the budgetary expenditures decreased from 8.4% to 6.1%. A curtailment of administrative expenses is continuing at the present time. In connection with the overall increase in the workers' and employees' wages, expenses for the maintenance of the government have, in absolute terms, increased over the past two-three years, even though their share of all of the budgetary expenses decreased considerably. In 1959 appropriations for the maintenance of the government were cut by one million won as compared with 1958.

Defense expenditures decreased: from 71,000,000 won in 1953 to 63,000,000 won in 1958 and 1959; their share of all the budgetary expenditures decreased from 8% in 1954 to 2.8% in 1959. By conducting a peaceful policy the government of the KNDR recently decreased its armed forces by 80,000 persons. In autumn of 1958, in coordination with the Chinese People's Republic, the Chinese people's volunteers were withdrawn from the northern part of the country in stages.

In contradiction to the peaceful policies of the KNDR the reactionary Li Sun Man clique, urged by the American imperialists is conducting an aggressive policy, accompanied by an increase in military expenditures and the armed forces, it calls for a military attack on the KNDR and maintains foreign military forces on the territory of South Korea.

A lion's share of all the budgetary expenditures in South Korea are devoted to the maintenance of the army and police. In 1957 military and associated expenses comprised 14.7 billion hwan, having increased by almost three times since 1953 (year of the armistice,) and in 1958 the military expenditures of the Li Sun Man authorities increased by an additional 10.2 billion hwan above their 1957 level. Out of the total amount of budgetary expenditures of 336 billion hwan, over 124.1 billion hwan or over 36% were appropriated directly for military purposes. Military expenditures consume all of the internal revenue of South Korea and during certain years they even exceeded the total revenues.

In addition to that large sums are allocated for the maintenance of the police. A large portion of the appropriations for the so-called "restoration of economy" are invested in the construction of military wharves and communication links. On the whole expenditures for the maintenance of the army and police comprise approximately 70% of all the expenditures of the Li Sun Man government.

The South Korean Army at the present time consists of almost 750,000 men and is one of the largest among capitalist countries.

Simultaneously with the increase in military spending, appropriations for social-cultural and economic measures are constantly

being increased.

The South Korean has a chronic deficit. In fiscal 1957 for instance, budgetary expenditures exceeded their revenues by 169.3 billion hwan, i.e. the deficit amounted to 54.5% of the total budget. American "aid" is used to cover the deficit, in addition to many internal loans and issues of paper money.

#### Local Budgets

In association with the development of the local economy and expansion in the rights of the local organs of government the role of local budgets is constantly increasing.

**The Co-Relation of the Central and Local Budgets  
of the KNDR [See Note]  
(million won)**

Year	State budget amount	Including			
		Central budget		Local budget	
		Amount	%	Amount	%
1954					
Revenues...	902	823	91.3	79	8.7
Expendi- tures.....	806	727	90.3	79	9.7
1955					
Revenues...	1,082	994	91.8	88	8.2
Expendi- tures.....	1,006	919	91.3	87	8.7
1956					
Revenues...	993	880	88.6	113	11.4
Expendi- tures.....	956	851	89.0	105	11.0
1957					
Revenues...	1,251	1,092	87.3	159	12.7
Expendi- tures.....	1,1022	883	86.4	139	13.6
1958					
Revenues...	1,530	1,175	76.8	355	23.2
Expendi- tures.....	1,315	960	73.0	355	27.0
1959					
Revenues...	2,325	1,597	68.7	728	31.3
Expendi- tures.....	2,281	1,553	68.1	728	31.9

(*Note*) Computed on the basis of data contained in the budget reports of the Minister of Finance of the KNDK and the state budgetary laws.)

During the postwar period with the growth of the state budget at 2.8 times, the total value of the local budgets increased by 9.2 times, and their share in the state budget increased 3.7 times for revenue and 3.3 times for expenditure. A particularly great increase in the local budgets together with an increase in their share of the state budget was noticed during the last two years. In 1959 the local budgets accounted for approximately one third of the total amount of the state budget, while in 1954 they amounted to only 9%. This is explained by the fact that many enterprises and organizations have been transferred to the jurisdiction of the local organs of government.

The most important sources of revenue for the local budgets prior to 1958, were the receipts yielded by local taxes and the profit taxes from local industrial enterprises. These revenues were quite inadequate for the needs of the local budgets. Therefore, a portion of the local budgetary expenditures were underwritten by national revenues. The amount of appropriations for this purpose were determined annually by the state budgetary laws. Regulatory revenues, which were partially state budgetary revenues and partially local budgetary revenues, were the turnover taxes paid by the enterprises of local and provincial jurisdiction, taxes on non-commodity operations, and taxes from cooperative and public enterprises and organizations as well as the income tax paid by the population.

In addition to the above, the central budget subsidized those provinces which had a lack of local regulatory revenue. In 1956, for instance, subsidies were provided for two provinces. During that year the provinces were appropriated full revenue from their timber production. In 1957 all the provinces were subsidized.

Revenue Structure of the Local Budgets. (*See Note*).  
(million won)

	1956 Amt.	1957 %	1958 Amt.	1958 %	1959 Amt.	1959 %
Total revenue....	100.2	100.0	131.4	100.0	254.5	100.0
Including:						
Local revenue....	50.8	50.7	56.1	42.7	185.8	73.0
Deductions from national revenue.	46.1	46.0	37.8	28.8	63.1	24.8
Grants from the central budget...	3.3	3.3	37.5	28.5	5.6	2.2

(*Note*) Compiled on the basis of data contained in reports made by the Minister of Finance of the KNDK and in the state budgetary laws.  
Plan data.)

In 1957 the turnover tax from the state enterprises was credited to the central budget in its entirety. The consequent gap between the revenues and expenditures of the local budgets was covered by subsidization by the central budget.

The sharp increase in the share of the individual incomes of the local budgets during 1958 is explained by the fact that they were granted all of the revenues yielded by the turnover tax and the tax on non-commodity operations of the cooperative organizations and enterprises, as well as the tax paid by the state enterprises under provincial jurisdiction in addition to the income taxes paid by the cooperatives and the population, revenues from educational and public health institutions, revenues from the timber industry and other sources, which were formerly regulatory. The turnover tax on the state enterprises under central jurisdiction again became the regulatory revenue.

The principal portion of the expenditures for local budgets of the KNDR are in the economic construction and social-cultural measures. Recently appropriations for the indicated purposes have, as a rule, comprised 4/5 of all the local budgetary expenditures. In absolute volume these expenditures increase from year to year. In 1959 expenditures for the national economy amounted to 351,000,000 won, i.e. almost 2.5 times more than in 1958. In 1955 46,300,000 won were appropriated for social-cultural measures and in 1957 73,400,000 won were appropriated for that purpose; while in 1958 105,500,000 won were stipulated and in 1959 194,000,000 won were appropriated for the social-cultural measures i.e. four times greater than in 1955. During the past three years the volume of peripheral expenditures for capital construction only amounted to 27,200,000 won in 1957, 65,900,000 in 1958 and in 1959 they reached 234,000,000 won.

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In complete contradiction to the development of the national economy and the systematic improvement in the welfare of the workers of the KNDR is the economic deterioration and the hard and constantly worsening material situation of the workers in the southern part of the country.

The only way out of this catastrophic condition, which is prevalent in South Korea, is the evacuation of occupation troops from its territory and the unification of the country on a peaceful and democratic basis.